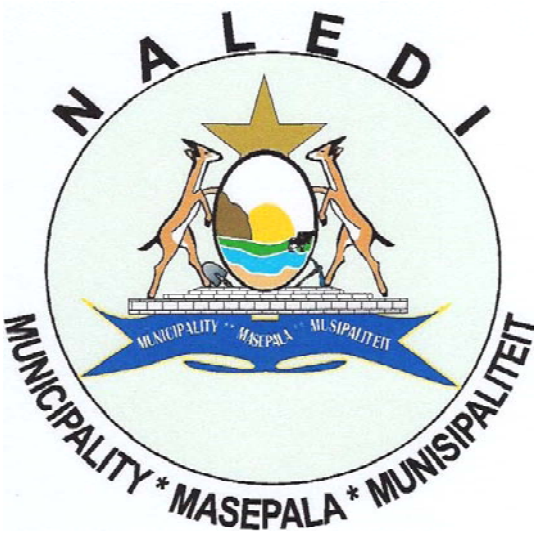

Naledi Local Municipality
Annual Financial Statements
for the year ended 30 June 2016

General Information

Legal form of entity	FS164 - Local Municipality - The municipality's operations are governed by the Municipal Finance Management act 56 of 2003, Municipal Structure Act 117 of 1998, Municipal Systems Act 32 of 2000; and various other acts and regulations.
Nature of business and principal activities	The main business operations of the municipality is to engage in local governance activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community: Waste Management Services -The collection, disposal and purifying of waste, refuse and sewerage; Electricity Services - Electricity is bought in bulk from Eskom and distributed to the consumers by the municipality; Water Services - Supplying water to the public; and Rates and general services - All types of services rendered by the municipality, excluding the supply of housing to the community, however including the rental of units owned by the municipality to public and staff.
Mayoral committee	
Executive Mayor	Ms M Mahase
Councillors	Mr MG Haddad
	Mr MD Mahloko
	Mr J Makitle
	Mr TD Motseledi
	Ms ML Sehloko
	Mr MM Seoko
	Mr GM Tladi
Grading of local authority	Grade 2 (Low Capacity)
Chief Finance Officer (CFO)	Mr T Moses (Resigned February 2016) Ms L Hammond (Acting (March - June 2016))
Accounting Officer	Mr QW Lefora
Registered office	Municipal Offices 13 Brand Street Dewetsdorp 9940
Business address	Municipal Offices 13 Brand Street Dewetsdorp 9940
Postal address	Private Bag X1 Dewetsdorp 9940
Bankers	ABSA Bank First National Bank
Auditors	Auditor-General of South Africa
Attorneys	Bahlekazi Attorneys Mabalane Attorneys

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act No. 56 of 2003
MIG	Municipal Infrastructure Grant (Previously CMIP)

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the MFMA, to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with the MFMA and Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 31 August 2016 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future as part of Mangaung Metro Municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's internal auditors.

The external auditors are responsible for auditing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 5 to 74, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2016 and were signed on his behalf by:

Mr QW Lefora
Accounting officer

Report of the Auditor General

To the Provincial Legislature of Naledi Local Municipality

Report on the financial statements

Auditor-General of South Africa

31 August 2016

Statement of Financial Position as at 30 June 2016

Figures in Rand	Notes	2016	2015 Restated*
ASSETS			
Current Assets			
Cash and cash equivalents	3	1 243 001	640 001
Consumer receivables	4	3 305 291	1 725 181
Other receivables from exchange transactions	5	266 724	266 831
VAT receivable	6	11 902 390	9 311 364
Inventories	7	118 510	96 197
		16 835 916	**12 039 574**
Non-Current Assets			
Investment property	8	1 454 000	1 090 000
Property, plant and equipment	9	317 950 552	319 007 630
Other financial assets	10	115 158	114 246
		319 519 710	**320 211 876**
Total Assets		**336 355 626**	**332 251 450**
LIABILITIES			
Current Liabilities			
Payables from exchange transactions	11	39 266 349	30 489 697
Consumer deposits	12	1 036 958	882 001
Unspent conditional grants and receipts	13	6 179 997	4 613 513
Other financial liabilities	14	20 075	20 075
Employee benefit obligation	15	336 000	357 000
Finance lease obligation	16	3 805	25 171
		46 843 184	**36 387 457**
Non-Current Liabilities			
Other financial liabilities	14	160 729	180 804
Employee benefit obligation	15	3 291 000	2 968 000
Provisions	17	34 648 639	32 533 933
		38 100 368	**35 682 737**
Total Liabilities		**84 943 552**	**72 070 194**
Net Assets		**251 412 074**	**260 181 256**
Accumulated surplus		251 412 074	260 181 258

* See Note 47

Statement of Financial Performance

Figures in Rand	Notes	2016	2015 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	30 324 180	27 160 233
Interest received - investment	20	84 510	151 063
Dividends received	20	1 738	3 579
Rental income	21	287 068	287 524
Interest received - trading		226 251	190 737
Other income	22	500 828	339 293
Fair value adjustments	23	364 912	16 392
Actuarial gains	15	-	7 191
Total revenue from exchange transactions		**31 789 487**	**28 156 012**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	24	4 838 103	3 780 368
Transfer revenue			
Government grants and subsidies	25	51 169 503	55 575 850
Public contributions and donations	26	5 783 980	2 155 495
Total revenue from non-exchange transactions		**61 791 586**	**61 511 713**
Total revenue		**93 581 073**	**89 667 725**
Expenditure			
Employee related costs	27	(33 668 794)	(28 806 465)
Remuneration of councillors	28	(2 291 566)	(2 089 136)
Depreciation	29	(10 814 412)	(12 682 223)
Impairment loss/ Reversal of impairments	30	8 772 991	(12 400 645)
Finance costs	31	(1 121 718)	(450 138)
Repairs and maintenance		(844 574)	(1 955 630)
Bulk purchases	32	(26 675 184)	(23 686 456)
Loss on disposal of assets		(9 395)	(25 757)
Actuarial losses		(191 000)	-
General expenses	33	(17 173 948)	(21 481 514)
Total expenditure		**(84 017 600)**	**(103 577 964)**
Surplus (deficit) for the year		**9 563 473**	**(13 910 239)**

* See Note 47

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2014	**274 091 497**	**274 091 497**
Changes in net assets		
Deficit for the year	(13 910 239)	(13 910 239)
Total changes	(13 910 239)	(13 910 239)
Opening balance as previously reported	260 236 512	260 236 512
Adjustments		
Prior year adjustments	(18 387 911)	(18 387 911)
Restated* Balance at 01 July 2015 as restated*	**241 848 601**	**241 848 601**
Changes in net assets		
Surplus for the year	9 563 473	9 563 473
Total changes	9 563 473	9 563 473
Balance at 30 June 2016	**251 412 074**	**251 412 074**

* See Note 47

Statement of Cash Flows

Figures in Rand	Notes	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		49 507 944	20 860 335
Grants		52 735 987	56 132 000
Interest income - investment		84 510	151 063
Dividends received		1 738	3 579
Interest income - trading		226 251	190 737
		102 556 430	77 337 714
Payments			
Employee costs		(35 960 360)	(30 846 410)
Suppliers		(55 663 873)	(42 024 793)
Finance costs		(120 120)	(199 138)
		(91 744 353)	(73 070 341)
Net cash flows from operating activities	35	**10 812 077**	**4 267 373**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(10 531 636)	(7 965 281)
Proceeds from sale of financial assets		364 000	156
Net cash flows from investing activities		**(10 167 636)**	**(7 965 125)**
Cash flows from financing activities			
Repayment of other financial liabilities		(20 075)	(108 711)
Finance lease payments		(21 366)	25 171
Net cash flows from financing activities		**(41 441)**	**(83 540)**
Net increase/(decrease) in cash and cash equivalents		**603 000**	**(3 781 292)**
Cash and cash equivalents at the beginning of the year		640 001	4 421 293
Cash and cash equivalents at the end of the year	3	**1 243 001**	**640 001**

* See Note 47

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	38 992 000	-	**38 992 000**	30 324 180	**(8 667 820)**	X1
Rental income	432 000	-	**432 000**	287 068	**(144 932)**	
Interest received - trading	230 500	-	**230 500**	226 251	**(4 249)**	
Other income	10 265 000	18 356	**10 283 356**	500 828	**(9 782 528)**	X2
Interest received - investment	-	-	**-**	84 510	**84 510**	
Dividends received	6 000	-	**6 000**	1 738	**(4 262)**	
Total revenue from exchange transactions	**49 925 500**	**18 356**	**49 943 856**	**31 424 575**	**(18 519 281)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	5 382 000	-	**5 382 000**	4 838 103	**(543 897)**	X3
Transfer revenue						
Government grants and subsidies - capital	13 369 000	-	**13 369 000**	10 775 722	**(2 593 278)**	X4
Government grants and subsidies - operational	44 771 500	-	**44 771 500**	40 393 781	**(4 377 719)**	X4
Public contributions and donations	-	-	**-**	5 783 980	**5 783 980**	X5
Total revenue from non-exchange transactions	**63 522 500**	**-**	**63 522 500**	**61 791 586**	**(1 730 914)**	
Total revenue	**113 448 000**	**18 356**	**113 466 356**	**93 216 161**	**(20 250 195)**	
Expenditure						
Employee related costs	(34 419 000)	(3 566 000)	**(37 985 000)**	(33 668 794)	**4 316 206**	X6
Remuneration of councillors	(2 287 000)	136 000	**(2 151 000)**	(2 291 566)	**(140 566)**	X6
Transfer payments - other	(5 793 000)	-	**(5 793 000)**	-	**5 793 000**	X7
Depreciation and amortisation	(1 700 000)	700 000	**(1 000 000)**	(10 814 412)	**(9 814 412)**	X8
Impairment loss	(1 600 000)	600 000	**(1 000 000)**	8 772 991	**9 772 991**	X9
Finance costs	(77 000)	48 000	**(29 000)**	(1 121 718)	**(1 092 718)**	X10
Repairs and maintenance	-	-	**-**	(844 574)	**(844 574)**	X11
Bulk purchases	(25 253 000)	(1 400 000)	**(26 653 000)**	(26 675 184)	**(22 184)**	
Contracted services	(4 547 000)	(558 000)	**(5 105 000)**	-	**5 105 000**	X12
General expenses	(23 912 000)	(1 393 620)	**(25 305 620)**	(17 173 948)	**8 131 672**	X13
Total expenditure	**(99 588 000)**	**(5 433 620)**	**(105 021 620)**	**(83 817 205)**	**21 204 415**	
Operating surplus	**13 860 000**	**(5 415 264)**	**8 444 736**	**9 398 956**	**954 220**	
Loss on disposal of assets	-	-	**-**	(9 395)	**(9 395)**	
Fair value adjustments	-	-	**-**	364 912	**364 912**	x14
Actuarial gains	-	-	**-**	(191 000)	**(191 000)**	
	-	**-**	**-**	**164 517**	**164 517**	
Surplus before taxation	**13 860 000**	**(5 415 264)**	**8 444 736**	**9 563 473**	**1 118 737**	

Statement of Comparison of Budget and Actual Amounts

X1: When preparing the budget, the municipality anticipated a higher increase for electricity by ESKOM and Centlec, however due to awareness campaigns on saving electricity and high inflation, the usage of electricity decreased resulting in lower than expected service charges during the year.

X2: When the reversal of impairment and the collection of refunds is not taken into consideration the municipality undercharged other revenues. During the budget process the municipality did not evaluate every other revenue stream to get to an accurate amount.

X3: During the 2014/2015 financial year the municipality discovered that they had inadvertently been charging themselves property rates. At 30 June 2015 a valuation of all properties were performed and the systems had been updated with the municipal properties and this led to a decrease in revenue for property rates. During the budget process the municipality did not evaluate property rates to get to an accurate amount.

X4: During the previous year a part of the MIG grant was withheld, further all the grants were not utilised during the year and only a part of the INEG grant was received by the municipality during the year.

X5: During the budget process the municipality did not expect any donations to be received.

X6: Employee related costs was lower than expected due to key management resignations during the year. Further actual salary increased were lower than the salary increase percentage as announced by SALGA during the budget process.

X7: Due to budget constraints no transfer payments were done.

X8: Actual depreciation amount exceeded the budget and this was caused by residual values which were re assessed due to the age of the infrastructure and assets and this led to acceleration of depreciation of assets.

X9: Actual impairment amount was less than the budget and this was caused by the reversal of the impairment of the prior year during the current year.

X10: During the budget process, interest cost on employee benefit obligations were included since reliably information was not available at during the budget process.

X11: The municipality did not budget for repairs and maintenance to infrastructure and other assets due to budget constraints.

X12: Due to budget constraints no contracted services was made use of during the year.

X13: Due to budget constraints in place the municipality saved on other expenditures incurred during the year.

X14: During the budget process, interest cost on employee benefit obligations were included since reliably information was not available at during the budget process.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand. All figures have been rounded to the nearest Rand.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Going concern assumption

These annual financial statements were not prepared based on the expectation that the municipality will not be able to continue to operate as a going concern for at least the next 12 months. Accordingly assets are measured at their fair values and liabilities are measured at their fair values due to the municipality amalgamating and will continue operations as part of the Mangaung Metro Municipality. The going concern difficulties faced by the municipality are further explained in note 40.

1.2 Transfer of functions

Common control

For a transaction or event to occur between entities under common control, the transaction or event needs to be undertaken between entities within the same sphere of government or between entities that are part of the same economic entity. Entities that are ultimately controlled by the same entity before and after the transfer of functions are within the same economic entity. The transfer does not constitute a transaction or event between entities under common control.

Function

A function is an integrated set of activities that is capable of being conducted and managed for purposes of achieving an entity's objectives, either by providing economic benefits or service potential. A function consists of inputs and processes applied to those inputs that have the ability to create outputs. A function can either be a part or a portion of an entity or can consist of the whole entity. Although functions may have outputs, outputs are not required to qualify as a function. The transfer from Naledi Local Municipality to Mangaung Local Municipality constitute a transfer of function.

Consideration

The transfer of functions must be undertaken between entities not under common control. The acquirer obtained control of an acquiree by:

- by incurring liabilities;
- by exchanging residual interests;
- without transferring consideration, including through a binding arrangement.

Acquisition method

An entity shall account for each transfer of functions between entities not under common control by applying the acquisition method.

Measurement

As of the acquisition date, the acquirer shall recognise, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree.

The acquirer shall measure the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

Accounting Policies

1.2 Transfer of functions (continued)

Identifying the acquirer and acquiree

For each transfer of functions between entities under common control an acquirer and transferor are identified. All relevant facts and circumstances are considered in identifying the acquirer and transferor.

The terms and conditions of a transfer of functions undertaken between entities under common control are set out in a binding arrangement. The binding arrangement governing the terms and conditions of a transfer of functions may identify which municipality to the transaction or event is the transferor(s) and which municipality is the acquirer. Where the binding arrangement does not clearly identify the acquirer or the transferor, the behaviour or actions of the entities may indicate which municipality is the acquirer and which municipality is the transferor.

The transfer of functions as the reorganisation and/or the re-allocation of functions between entities by transferring functions between entities or into another entity. The transfer of functions is undertaken between entities not under common control.

Refer to note 50 Transfer of functions for the acquirer and acquiree.

Acquisition date

The acquirer shall identify the acquisition date, which is the date on which it obtains control of the acquiree.

All transactions cease on the day before the post-election municipality comes into effect. All records of the pre-election municipality will also be efficiently maintained and handed over to the post-election municipality.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Allowance for impairment

The municipality assesses its receivables for impairment at the end of each reporting period when events or changes in circumstances suggest that the carrying amount may not be recoverable. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for receivables is calculated on an individual debtor basis and thereafter on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to balances in the portfolio and scaled to the estimated loss emergence period.

Impairment testing

The recoverable (service) amounts of non-cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

Value in use of cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors such as inflation and interest.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Value in use of non-cash generating assets:

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, the remaining service potential of the asset is determined. The most appropriate approach selected to determine the remaining service potential is dependent on the availability of data and the nature of the impairment.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and other assets. This estimate is based on industry norm. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

Post employment benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. The most appropriate discount rate that reflects the time value of money is with reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 15.

Effective interest rate

The municipality uses the government bond rate to discount future cash flows where required.

1.4 Investment property

Investment property is property (land or a building; or part of a building; or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services; or
- administrative purposes; or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality and the cost or fair value can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.4 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the municipality measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality applies the cost model (as per the accounting policy on property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on property, plant and equipment.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss arising from the derecognition of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset. Such a difference is recognised in surplus or deficit when the investment property is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Accounting Policies

1.5 Property, plant and equipment (continued)

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the municipality is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Subsequent to initial measurement, property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Except for land, property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item		Average useful life
Buildings		30 years
Plant and equipment	Straight line	2 to 20 years
Furniture and fixtures	Straight line	3 to 17 years
Motor vehicles	Straight line	5 to 25 years
Office equipment	Straight line	3 to 20 years
IT equipment	Straight line	2 to 13 years
Infrastructure	Straight line	5 to 30 years
Community	Straight line	10 to 30 years
Other property, plant and equipment	Straight line	9 to 12 years
Musical instruments	Straight line	8 to 9 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the municipality to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

Accounting Policies

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

The related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Financial instruments

Classification

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

Initial recognition

The municipality recognises a financial asset or a financial liability in its statement of financial position when the municipality becomes a party to the contractual provisions of the instrument.

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The municipality measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets and financial liabilities

The municipality measures all financial assets and financial liabilities after initial recognition as financial instruments measured at amortised cost.

All financial assets measured at amortised cost are subject to an impairment review.

1.7 Financial instruments (continued)

Other financial assets are measured at fair value.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations.

Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the municipality uses that technique.

The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, a municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

Short-term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Impairment and uncollectibility of financial assets

The municipality assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the municipality:
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

Accounting Policies

1.7 Financial instruments (continued)

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the municipality obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the municipality recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The municipality removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another municipality by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

1.8 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and building elements, the municipality assesses the classification of each element separately.

Accounting Policies

1.8 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. The difference between the amounts recognised as revenue and the contractual receipts are recognised as an operating lease asset or liability.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Any contingent rents are recognised separately as revenue in the period in which they are received.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis over the lease term.

Any contingent rents are recognised separately as an expense in the period in which they are incurred.

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for a nominal cost, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for:

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of consumable inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

The cost of water inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.10 Value-added Tax (VAT)

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payments basis, in accordance with Section 15(2) of the VAT Act (Act No. 89 of 1991).

Accounting Policies

1.11 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the municipality base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence.

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.12 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset is tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality will not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an over-designed or overcapacity asset. Over-designed assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Accounting Policies

1.12 Impairment of non-cash-generating assets (continued)

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.13 Employee benefits

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within 12 months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within 12 months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within 12 months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measures the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the municipality has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, the municipality recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within 12 months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

The municipality accounts not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The municipality measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The municipality determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

The municipality recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, the municipality attributes benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, the municipality attributes benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

Accounting Policies

1.13 Employee benefits (continued)

Other long-term employee benefits

The municipality has an obligation to provide long-term service allowance benefits to all of its employees.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liabilities. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

The amount recognised as a liability for long-term service awards is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The municipality recognises the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which is recognised immediately;
- past service cost, which is recognised immediately; and
- the effect of any curtailments or settlements.

1.14 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating expenditure.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Accounting Policies

1.14 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

The related asset is measured using the cost model changes in the liability is added to, or deducted from, the cost of the related asset in the current period.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.15 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

All other revenue is recognised once a formal or informal arrangement is reached between the municipality and willing parties for the renting of the facilities or the delivering of goods.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by surveys of work performed.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

Interest and dividends

Revenue arising from the use by others of municipal assets yielding interest and dividends or similar distributions is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

1.16 Revenue from non-exchange transactions

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Taxes (Property rates for municipalities)

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Transfers

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Fines

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue due to the municipality from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue summonses, the revenue from summonses is recognised when the public prosecutor pays over to the municipality the cash actually collected on summonses issued.

1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.18 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No. 56 of 2003), and includes:

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of ''allocation'' otherwise than in accordance with any conditions of the allocation; or
- a grant by the municipality otherwise than in accordance with the Municipal Finance Management Act.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is recorded in the notes to the financial statements when confirmed. The amount recorded is equal to the value of the irregular expenditure incurred, unless it is impractical to determine, in which case reasons therefore must be provided in the notes.

Irregular expenditure receivables are measured at the amount that is expected to be recovered and are de-recognised when settled or written-off as irrecoverable.

1.21 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited/debited against accumulated surplus/deficit. Prior year adjustments, relating to income and expenditure, are debited/credit against accumulated surplus when retrospective adjustments are made.

Accounting Policies

1.22 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments, which are disclosed in note 36.

Commitments for which disclosure is necessary to achieve a fair presentation are disclosed if both the following criteria are met:

- contracts are non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- contracts relate to something other than the routine, steady, state business of the municipality – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.23 Budget information

The approved budget is prepared on the accrual basis and presented by economic classification linked to performance outcome objectives.

The municipality considers budget variances greater than 10% and R 530 000 (approximately 0.5% of revenue) as material.

The approved budget covers the fiscal period from 1 July 2015 to 30 June 2016.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.24 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.25 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality adjusts the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality discloses the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2016 or later periods:

GRAP 18: Segment Reporting

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures
- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 109: Accounting by Principals and Agents

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 21 (as amended 2015): Impairment of non-cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Non-cash-generating Assets are outlined below:

The definition of cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets.

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

Additional commentary has been added to clarify that physical damage triggers impairment of an asset when it results in a permanent or a significant decline in the potential of an asset.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

An indicator has been added that the restoration of an asset's service potential following physical damage to the asset could indicate a reversal in an impairment loss.

Additional commentary has been added to clarify that restoration of an asset's service potential as a result of physical damage is an indication that an impairment loss recognised in prior periods may no longer exist or may have decreased.

The requirement to disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

GRAP 26 (as amended 2015): Impairment of cash-generating assets

The Board agreed to include a research project on its work programme to review GRAP 21 and GRAP 26 to assess whether the principles in these Standards could be simplified and streamlined. As part of its research project, the Board considered the following aspects which led to the proposed amendments included in this Exposure Draft:

- simplifying the approach to impairment to make it clearer when an asset is cash generating or non-cash-generating;
- assessing the feasibility of one measurement approach for non-cash-generating assets; and
- assessing the feasibility of combining the two Standards.

Summary of changes:

The changes to the Standard of GRAP on Impairment of Cash-generating Assets are outlined below:

The definitions of cash-generating assets and cash-generating unit have been amended to be consistent with the amendments made to clarify the objective of cash-generating assets and non-cash-generating assets below.

Additional commentary has been added to clarify the objective of cash-generating assets and non-cash-generating assets.

The requirement to disclose the criteria developed to distinguish cash-generating assets from non-cash-generating assets has been amended to be consistent with the amendments made to clarify the objective of non-cash-generating assets and cash-generating assets.

The effective date of the standard is for years beginning on or after 01 April 2017.

The municipality expects to adopt the standard for the first time in the 2018 annual financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

Figures in Rand	2016	2015

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	1 209 692	608 870
Short-term deposits	33 309	31 131
	1 243 001	**640 001**

Cash and cash equivalents pledged as security

None of the cash and cash equivalents were pledged as security.

There are no other restrictions on the ability to realise the cash balances.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2016	30 June 2015	30 June 2014	30 June 2016	30 June 2015	30 June 2014
ABSA Bank - Current Account - 406 653 1831	396 718	271 577	873 375	396 718	271 577	866 862
ABSA Bank - Current Account - 186 027 0184	298 907	286 719	3 429 074	762 069	286 719	3 429 074
ABSA Bank - Short term deposit - 906 109 3425	33 309	31 131	29 417	33 309	31 131	29 417
First National Bank - Current Account - 624 019 56729	50 907	50 574	106 630	50 907	50 574	95 940
Total	**779 841**	**640 001**	**4 438 496**	**1 243 003**	**640 001**	**4 421 293**

4. Consumer receivables

Gross balances		
Rates	9 802 618	10 469 272
Electricity	4 497 591	4 952 146
Water	13 265 567	19 624 299
Sewerage	14 360 835	14 180 726
Refuse	11 082 813	10 583 981
Sundry services	1 790 090	2 524 007
	54 799 514	**62 334 431**
Less: Allowance for impairment		
Impairment total	(51 494 223)	(60 609 250)
Net balance		
Rates	9 802 618	10 469 272
Electricity	4 497 591	4 952 146
Water	13 265 567	19 624 299
Sewerage	14 360 835	14 180 726
Refuse	11 082 813	10 583 981
Sundry services	1 790 090	2 524 007
Impairment loss	(51 494 223)	(60 609 250)
	3 305 291	**1 725 181**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015
4. Consumer receivables (continued)		
Included in above is receivables from exchange transactions		
Electricity	4 497 591	4 952 146
Water	13 265 567	19 624 299
Sewerage	14 360 835	14 180 726
Refuse	11 082 813	10 583 981
Sundry services	1 790 090	2 524 007
	44 996 896	**51 865 159**
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	9 802 618	10 469 272
Gross balance	**54 799 514**	**62 334 431**
Rates		
Current (0 -30 days)	89 486	360 302
31 - 60 days	85 112	92 368
61 - 90 days	96 976	77 514
91 - 120 days	76 631	74 784
121 - 365 days	9 454 413	9 864 304
	9 802 618	**10 469 272**
Electricity		
Current (0 -30 days)	741 352	1 855 883
31 - 60 days	136 746	264 110
61 - 90 days	54 436	121 976
91 - 120 days	3 565 057	2 710 177
	4 497 591	**4 952 146**
Water		
Current (0 -30 days)	321 380	515 524
31 - 60 days	347 244	313 485
61 - 90 days	300 158	308 414
91 - 120 days	278 039	289 650
121 - 365 days	12 018 746	18 197 226
	13 265 567	**19 624 299**
Sewerage		
Current (0 -30 days)	297 998	299 424
31 - 60 days	284 474	289 368
61 - 90 days	270 828	274 256
91 - 120 days	264 114	273 172
121 - 365 days	13 243 421	13 044 506
	14 360 835	**14 180 726**
Refuse		
Current (0 -30 days)	204 126	200 037
31 - 60 days	198 372	193 050
61 - 90 days	197 320	184 928
91 - 120 days	194 080	183 241
121 - 365 days	10 288 915	9 822 725
	11 082 813	**10 583 981**

Figures in Rand	2016	2015

4. Consumer receivables (continued)

Sundry services		
Current (0 -30 days)	14 840	25 039
31 - 60 days	10 714	11 229
61 - 90 days	8 736	9 558
91 - 120 days	7 990	8 585
121 - 365 days	1 747 810	2 469 596
	1 790 090	**2 524 007**
Less: Allowance for impairment	(51 494 223)	(60 609 250)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	994 856	1 148 144
31 - 60 days	962 799	913 060
61 - 90 days	921 793	882 258
91 - 120 days	873 010	855 573
121 - 365 days	46 618 105	52 688 423
> 365 days	-	(465 979)
	50 370 563	56 021 479
Less: Allowance for impairment	(46 728 530)	(52 176 627)
	3 642 033	**3 844 852**

The amounts above consist of Domestic, Employees, Indigent, Normal, Rural, Unknown and closed accounts.

Industrial/ commercial		
Current (0 -30 days)	579 170	29 743
31 - 60 days	154 601	22 204
61 - 90 days	77 598	19 780
91 - 120 days	73 305	17 813
121 - 365 days	7 682 194	4 117 759
	8 566 868	4 207 299
Less: Allowance for impairment	(4 765 693)	(4 083 219)
	3 801 175	**124 080**

The amounts above consist of Farms and Business accounts.

National and provincial government		
Current (0 -30 days)	210 355	98 336
31 - 60 days	61 467	73 659
61 - 90 days	36 103	58 500
91 - 120 days	29 660	58 900
121 - 365 days	414 061	1 597 040
	751 646	**1 886 435**

The amounts above consist of national government and provincial government.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

4. Consumer receivables (continued)

Total		
Current (0 -30 days)	1 784 381	3 252 676
31 - 60 days	1 178 866	1 183 281
61 - 90 days	1 035 494	976 644
91 - 120 days	975 975	3 537 878
121 - 365 days	54 714 361	53 396 307
	59 689 077	62 346 786
Less: Allowance for impairment	(51 494 223)	(60 609 250)
	8 194 854	**1 737 536**
Reconciliation of allowance for impairment		
Balance at beginning of the year	(60 609 250)	(46 547 075)
Contributions to allowance	-	(14 062 175)
Reversal of allowance	9 115 027	-
	(51 494 223)	**(60 609 250)**

Consumer receivables pledged as security

None of the consumer receivables were pledged as security.

Credit quality of consumer receivables

The credit quality of consumer receivables that are neither past due nor impaired can be assessed by reference to the historical information on the counterparty default rates.

Government customers were assessed as being high quality, which means that the full balance is recoverable.

All other customers were assessed as being low quality, which means that majority of the balance is not recoverable and was impaired.

None of the financial assets that are fully performing have been renegotiated in the last year. There were no ageing of consumer receivables past due but not impaired.

Consumer receivables past due not impaired

Consumer receivables from which are less than 60 days past due are not considered to be impaired. At 30 June 2016, R 548 373 were past due but not impaired (2015: R 3 421 370).

The ageing of amounts past due but not impaired is as follows:

1 month past due	60 853	157 405
2 months past due	32 798	78 836
3 months past due	454 722	3 185 129

Consumer receivables impaired

The amount of the allowance was R (51 494 223) as of 30 June 2016 (2015: R (60 609 250)).

As of 30 June 2016, consumer receivables of R 54 932 943 (2015: R 60 146 411) were impaired and provided for.

The ageing of these consumer receivables is as follows:

3 to 6 months	3 739 128	3 714 956
Over 6 months	51 193 815	56 431 455
	54 932 943	**60 146 411**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

5. Other receivables from exchange transactions

Deposits	15 000	15 000
Pre-paid electricity vendors	206 719	209 693
Short term debtors	44 504	42 138
Dividend receivable	501	-
	266 724	**266 831**

Credit quality of other receivables from exchange transactions

The credit quality of other receivables from exchange transactions that are neither past due nor impaired can be assessed by reference to historical information about counterparty default rates.

None of the financial assets that are fully performing have been renegotiated in the last year.

Short-term debtors were assessed as being high quality, which means that the full balane is recoverable.

Other receivables from exchange transactions past due but not impaired

Other receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2016, R 266 831 (2015: R 27 620) were past due but not impaired.

3 months past due	266 831	27 620

Other receivables from exchange transactions impaired

No other receivables from exchange transactions were considered to be impaired and provided for during the year (2015: R nil).

6. VAT receivable

VAT	11 902 390	9 311 364

The municipality is registered for VAT on the payment basis.

7. Inventories

Consumables stores	94 132	70 851
Water	24 378	25 346
	118 510	**96 197**
Consumables recognised as an expense during the year	94 132	70 851
Bulk water purchases recognised as an expense during the year	8 891 729	6 971 323

Water is carried at cost. Consumables are carried at net realisable value and current replacement cost.

Inventory pledged as security

None of the Inventory was pledged as security.

Figures in Rand	2016	2015

8. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	1 454 000	-	1 454 000	1 090 000	-	1 090 000

Reconciliation of investment property - 2016

	Opening balance	Fair value adjustments	Total
Investment property	1 090 000	364 000	1 454 000

Reconciliation of investment property - 2015

	Opening balance	Fair value adjustments	Total
Investment property	1 090 000	-	1 090 000

Pledged as security

None of the above investment property have been pledged as security.

Details of property

Dwelling 278
On erven 278 in Wepener

- Opening balance	240 000	240 000
- Fair value adjustments	113 000	-
	353 000	**240 000**

The cost price of the asset is not available and not registered in the deed registry. The asset was purchased on 3 July 1939.

The dwelling consists of a single story residential unit, constructed of plastered brick walls under a corrugated metal roof. The interior has standard fittings and finishes with tile and carpet floors. The house is equipped with rhino board and suspended ceilings, standard light fittings and steel window frames.

Dwelling 296
On erven 296 in Wepener

- Opening balance	270 000	270 000
- Fair value adjustments	141 000	-
	411 000	**270 000**

The cost price of the asset is not available and not registered in the deed registry. The asset was purchased on 3 July 1939.

Two single story residential units, constructed of plastered brick walls under a corrugated metal roof. The interior has standard fittings and finishes with novilon and carpet floors. The house is equipped with rhino board and suspended ceilings, standard light fittings and steel window frames.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

8. Investment property (continued)

Flats at 42 Hooge Street		
On erven 315, 317 and 319 in Dewetsdorp		
- Opening balance	580 000	580 000
- Fair value adjustments	110 000	-
	690 000	**580 000**

The cost price of the asset was R 8 000. The assets were purchased on 8 October 1993 and 24 March 1994.

A townhouse complex situated on 42 Hooge street, Dewetsdorp. Complex consisting of 10 units.The demand for this this type and quality of property in this specific area is low. The improvements have generally been well maintained and the stands are not fully utilized.

Details of valuation

A valuation was done for investment property during the 2015/2016 financial year. The effective date of the last valuation was 30 June 2015. Revaluations were performed by an independent valuer, Raymond Taylor [Professional Associate Valuer Reg. No. 5916/1], of NID Valuators. NID Valuators are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

Amounts recognised in surplus and deficit for the year.

Rental revenue from investment property	93 849	93 255

No direct expenditure had been incurred in the generation of rental revenue from investment property.

There are no restrictions on the remittance of revenue and proceeds of disposal for the investment property.

There are no contractual obligations to purchase, construct or develop investment property.

There are no contractual obligations for repairs, maintenance or enhancements.

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	51 746 612	(29 199 145)	22 547 467	51 746 612	(28 519 969)	23 226 643
Community	110 133 928	(41 790 601)	68 343 327	97 355 060	(40 200 336)	57 154 724
Furniture and fixtures	1 102 810	(908 082)	194 728	1 357 765	(1 050 454)	307 311
IT equipment	709 611	(541 871)	167 740	761 671	(507 245)	254 426
Motor vehicles	3 183 829	(2 382 252)	801 577	7 334 644	(5 502 750)	1 831 894
Musical instruments	18 000	(17 234)	766	18 000	(16 714)	1 286
Infrastructure	454 156 032	(239 779 676)	214 376 356	430 409 611	(231 767 106)	198 642 505
Office equipment	157 598	(105 246)	52 352	278 594	(209 590)	69 004
Other assets	1 018	(1 000)	18	1 018	(994)	24
Plant and equipment	345 722	(251 565)	94 157	366 215	(240 634)	125 581
Work in progress	11 372 064	-	11 372 064	37 394 232	-	37 394 232
Total	**632 927 224**	**(314 976 672)**	**317 950 552**	**627 023 422**	**(308 015 792)**	**319 007 630**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Transfers	Disposals	Depreciation	Impairment loss	Impairment reversal	Total
Buildings	23 226 643	-	-	-	(679 176)	-	-	22 547 467
Community	57 154 724	-	12 778 868	-	(1 590 265)	-	-	68 343 327
Furniture and fixtures	307 311	-	-	(473)	(84 253)	(31 848)	3 991	194 728
IT equipment	254 426	19 682	-	(3 192)	(72 191)	(32 548)	1 563	167 740
Infrastructure	198 642 505	-	23 746 422	-	(8 012 571)	-	-	214 376 356
Motor vehicles	1 831 894	-	-	(425 703)	(334 640)	(309 586)	39 612	801 577
Musical instruments	1 286	-	-	-	(520)	-	-	766
Office equipment	69 004	-	-	(3)	(15 690)	(2 184)	1 225	52 352
Other assets	24	-	-	-	(6)	-	-	18
Plant and equipment	125 581	8 832	-	(2 895)	(25 100)	(16 689)	4 428	94 157
Work in progress	37 394 232	10 503 124	(36 525 292)	-	-	-	-	11 372 064
	319 007 630	**10 531 638**	**(2)**	**(432 266)**	**(10 814 412)**	**(392 855)**	**50 819**	**317 950 552**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Prior period errors	Depreciation	Impairment loss	Impairment reversal	Total
Buildings	23 938 407	-	-	-	-	(711 764)	-	-	23 226 643
Community	38 237 740	20 401 902	-	1 816	-	(1 486 734)	-	-	57 154 724
Furniture and fixtures	261 207	58 566	(6 916)	-	115 392	(121 072)	(16 750)	16 884	307 311
IT equipment	205 781	88 366	-	-	41 094	(69 892)	(12 529)	1 606	254 426
Infrastructure	208 243 141	81 313	(78)	(1 816)	-	(9 680 055)	-	-	198 642 505
Motor vehicles	2 391 453	-	-	-	-	(547 887)	(128 113)	116 441	1 831 894
Musical instruments	3 857	-	-	-	-	(2 571)	-	-	1 286
Office equipment	71 800	20 700	(13 625)	-	20 006	(29 154)	(2 470)	1 747	69 004
Other assets	34	-	-	-	-	(10)	-	-	24
Plant and equipment	144 542	39 600	(5 138)	-	6 592	(38 766)	(23 793)	2 544	125 581
Work in progress	29 900 580	7 493 652	-	-	-	-	-	-	37 394 232
	303 398 542	**28 184 099**	**(25 757)**	**-**	**183 084**	**(12 687 905)**	**(183 655)**	**139 222**	**319 007 630**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

9. Property, plant and equipment (continued)

Pledged as security

None of the above property, plant and equipment have been pledged as security.

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Total
Opening balance	37 394 232	37 394 232
Additions/capital expenditure	10 503 124	10 503 124
Transferred to completed items	(36 525 292)	(36 525 292)
	11 372 064	**11 372 064**

Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Total
Opening balance	29 900 580	29 900 580
Additions/capital expenditure	7 493 652	7 493 652
	37 394 232	**37 394 232**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

The asset is in the process of construction and overruns are being incurred, because the original contractor had to be replaced.

10. Other financial assets

Designated at fair value		
Senwes Ltd shares 1 455 shares at R 10.00 (2015: R 10.40) published market value per share	14 550	15 132
Senwesbel Ltd shares 2 230 shares at R 6.00 (2015: R 6.05) published market value per share	13 380	13 492
OVK Operations Ltd shares 3 273 shares at R 13.57 (2015: R 13.35) published market value per share	44 415	43 695
OVK Holdings Ltd shares 3 406 shares at R 12.57 (2015: R 12.31) published market value per share	42 813	41 927
Non-current assets		
Fair value	115 158	114 246

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

Figures in Rand	2016	2015

10. Other financial assets (continued)

Level 1		
Senwes Ltd	14 550	15 132
Senwesbel Ltd	13 380	13 492
OVK Operations Ltd	44 415	43 695
OVK Holdings Ltd	42 813	41 927
	115 158	**114 246**

11. Payables from exchange transactions

Accrued 13th cheque	726 155	708 553
Accrued leave pay	2 846 592	2 711 977
Centlec creditor	15 569 779	15 411 600
Operating lease payables	16 046	3 850
Payments received in advance - Centlec	251 627	840 727
Payments received in advance - Naledi	266 309	966 583
Retentions	2 021 806	1 326 701
Payroll account	1 716 184	1 222 136
Suspense account	1 396 380	48 946
Trade payables	14 455 471	7 248 624
	39 266 349	**30 489 697**

12. Consumer deposits

Electricity (Centlec and Naledi)	584 027	310 000
Water	452 931	572 001
	1 036 958	**882 001**

13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Department of water affairs	1 032 519	1 191 170
Expanded public works programme	369 343	42 615
Finance management grant	591 737	-
Management infrastructure grant	3 972 915	3 379 728
Municipal systems improvement grant	45 483	-
Intergrated National Electrification Programme (INEP)	168 000	-
	6 179 997	**4 613 513**

Movement during the year

Balance at the beginning of the year	4 613 513	4 057 363
Additions during the year	17 209 000	17 860 000
Income recognition during the year	(15 642 516)	(16 264 850)
Repayment to National Revenue Fund	-	(1 039 000)
	6 179 997	**4 613 513**

See note 25 Government grants and subsidies for reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

14. Other financial liabilities

At amortised cost		
Centlec loan	180 804	200 879

The loan from Centlec is repayable in equal annual installments of R 20 075, interest is levied at 10% on capital amounts outstanding.

The loan is unsecured.

Non-current liabilities		
At amortised cost	160 729	180 804
Current liabilities		
At amortised cost	20 075	20 075

15. Employee benefit obligations

Non-Current liabilities		
Post- employment medical aid benefit	887 000	968 000
Long service award	2 404 000	2 000 000
	3 291 000	**2 968 000**
Current liabilities		
Post- employment medical aid benefit	145 000	91 000
Long service award	191 000	266 000
	336 000	**357 000**
Amounts recognised in the statement of financial performance		
Current service cost	266 000	238 000
Finance cost	304 000	251 000
	570 000	**489 000**

There are no plan assets and liabilities are unfunded.

Amounts for current and previous four periods are as follows:

	2016	2015	2014	2013	2012
Post employment medical aid benefit	1 032 000	1 059 000	1 209 000	1 225 000	1 159 000
Long service award	2 595 000	2 266 000	1 823 000	1 511 000	1 122 000
	3 627 000	**3 325 000**	**3 032 000**	**2 736 000**	**2 281 000**

Post- employment medical aid benefit

Medical Aid Scheme Arrangements

The Municipality offers employees and continuation members (pensioners) the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical aid scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical aid scheme.

Contribution Rate Structure

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

15. Employee benefit obligations (continued)

Subsidy Arrangements

The Municipality has agreed to subsidise the medical aid contributions of retired members in the following way:

- All existing continuation members (pensioners) and their dependants will continue to receive a 60% subsidy subject to the maximum (CAP) amount of R 3 871 (per month per member) for the period from 1 July 2016 to 30 June 2017. The maximum (CAP) amount was R 3 763 in the previous financial year.
- The Maximum subsidy is expected to increase at 50% of inflation.

Changes in the present value of the post - employment medical aid benefit obligation are as follows:

Opening balance	1 059 000	1 209 000
Benefits paid	(134 000)	(188 809)
Net expense recognised in the statement of financial performance	107 000	38 809
	1 032 000	**1 059 000**

Net expense of the post - employment medical aid benefit obligation recognised in the statement of financial performance

Interest cost	91 000	102 000
Actuarial (gains) losses	16 000	(63 191)
	107 000	**38 809**

Key assumptions used

The table summarises the financial assumption used.

Discount rates used (Yield curve)	8.70 %	8.94 %
Consumer price inflation (CPI) (Difference between nominal and yield curves)	6.30 %	7.05 %
Medical aid contribution inflation (2016: (CPI +1.5%), 2015: (CPI +1%))	7.80 %	8.05 %
Net effective discount rate (Yield curve based)	- %	0.82 %

Discount rate

GRAP 25 requires the discount rate to be based on government bond yields.

The discount rate assumption of 8.70% pa as at 30 June 2016 has been derived from the government bond yield curve published by the Bond Exchange of South Africa as at the same date. The weighted average duration for this plan has been calculated to be around six years and so we have read the six year spot rate from this yield curve to derive the above assumption.

Price inflation

The price inflation assumption as at 30 June 2016 has been derived by looking at the difference between fixed interest and index linked government bonds.

The fixed interest yield has been assumed to be 8.70% pa (as derived in the previous section). The index linked yield has been derived by considering the yields on the available index linked government bond yields at durations of about six years. This results in an index-linked yield of 1.70% pa.

The difference results in a market implied price inflation assumption of 6.8% pa.

We have further allowed for an Inflation Risk Premium (“IRP”) of 0.5% pa to reflect the additional premium that investors tend will require to protect themselves against future unanticipated inflation as well as other market factors. This results in a price inflation assumption of 6.3% pa. The size of the IRP is in line with what we typically observe being used in the market.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

15. Employee benefit obligations (continued)

Medical cost inflation

We have assumed medical inflation will increase at CPI+1.5% per annum. The previous valuation used an assumption of CPI +1%. However, we feel that this assumption should be revised upwards to better reflect recent increases in medical aid contributions, which are likely to be experienced by the membership.

Mortality

We consider these assumptions to be reasonable best estimate assumptions and they are in line with industry practice. The plan is too small to have any credible mortality experience investigation and therefore the use of standard tables is appropriate.

Sensitivity

The defined benefit obligation is particularly sensitive to the financial assumption. In the following table we have illustrated the sensitivity of the defined benefit obligation to changes in the discount rate, medical inflation rate and mortality rate assumptions as at 30 June 2016.

Discount rate

	1% increase	1% decrease
Total accrued liability	983 000	1 086 000

Medical inflation rate

We have tested the effect of a 1% p.a. change in the medical aid inflation assumption. The effect is as follows:

	1% increase	1% decrease
Total accrued liability	1 050 000	1 012 000
Interest cost	91 910	90 090

Long service award

Changes in the present value of the long service award are as follows:

Opening balance	2 266 000	1 823 000
Net expense recognised in the statement of financial performance	329 000	443 000
	2 595 000	**2 266 000**

Net expense of the long service award recognised in the statement of financial performance

Current service cost	266 000	238 000
Interest cost	213 000	149 000
Actuarial (gains) losses	175 000	56 000
Expected employer benefits payments	(325 000)	-
	329 000	**443 000**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used (Yield curve)	8.90 %	7.96 %
Consumer price inflation (CPI) (Difference between nominal and yield curves)	6.50 %	6.33 %
Medical aid contribution inflation (2016: (CPI +1.5%), 2015: (CPI +1%))	7.44 %	7.33 %
Net effective discount rate (Yield curve based)	- %	0.59 %
Salary inflation	7.50 %	- %

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

15. Employee benefit obligations (continued)

Discount rate

GRAP25 requires the discount rate to be based on government bond yields.

The discount rate assumption of 8.90% pa as at 30 June 2016 has been derived from the government bond yield curve published by the Bond Exchange of South Africa as at the same date. The weighted average duration for this plan has been calculated to be around 8.5 years and so we have read the 8.5 year spot rate from this yield curve to derive the above assumption.

Price inflation

The price inflation assumption as at 30 June 2016 has been derived by looking at the difference between fixed interest and index linked government bonds.

The fixed interest yield has been assumed to be 8.90% pa (as derived in the previous section).

The index linked yield has been derived by considering the yields on the available index linked government bond yields at durations of about 8.5 years. This results in an index-linked yield of 1.78% pa.

The difference results in a market implied price inflation assumption of 7.00% pa.

We have further allowed for an Inflation Risk Premium (“IRP”) of 0.50% pa to reflect the additional premium that investors tend will require to protect themselves against future unanticipated inflation as well as other market factors. This results in a price inflation assumption of 6.50% pa.

Salary inflation

Salary inflation is typically linked to price inflation and in general is expected to exceed it.

As at 30 June 2016 we propose a real increase assumption of 1.00% pa (i.e. 1.00% above price inflation). This results in a salary inflation assumption of 7.50% pa. We have adopted a 1.00% per annum real increase assumption as we believe this represents a reasonable long-term assumption. This assumption of a 1% real increase is the same as that used in the previous valuation.

Average retirement rate

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal retirement age

The normal retirement age (NORA) for all active employees was assumed to be 65 years.

Mortality rate

We consider these assumptions to be reasonable best estimate assumptions and they are in line with industry practice. The plan is too small to have any credible mortality experience investigation and therefore the use of standard tables is appropriate.

Withdrawal decreasements

The following table sets out the assumed rates of withdrawal from service for both males and females:

Figures in Rand	2016	2015

15. Employee benefit obligations (continued)

Age band	Withdrawal rate
20 - 24	16 %
25 - 29	12 %
30 - 34	10 %
35 - 39	8 %
40 - 44	6 %
45 - 49	4 %
50 - 54	2 %
55 - 59	1 %
60 +	- %

Sensitivity analysis - discount rate

The defined benefit obligation is particularly sensitive to the financial assumption. In the following table we have illustrated the sensitivity of the defined benefit obligation to changes in the discount rate assumptions as at 30 June 2016.

	1% increase	1% decrease
Total accrued liability	2 407 000	2 810 000

Sensitivity analysis - salary inflation rate

The defined benefit obligation is particularly sensitive to the financial assumption. In the following table we have illustrated the sensitivity of the defined benefit obligation to changes in the salary inflation assumptions as at 30 June 2016.

A one percentage point change in assumed normal salary inflation trends would have the following effects:

	1% increase	1% decrease
Total accrued liability	2 836 000	2 419 000

16. Finance lease obligation

Minimum lease payments due		
- within one year	3 860	27 017
- in second to fifth year inclusive	-	3 860
Present value of minimum lease payments	**3 860**	**30 877**

The municipality leases photocopy machines from NRG at a rental of R 1 930 for a period of 3 years.

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

17. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Total
Dewetsdorp landfill closure cost	21 957 272	1 427 223	23 384 495
Van Stadensrus landfill closure cost	3 077 319	200 026	3 277 345
Wepener landfill site closure cost	7 499 342	487 457	7 986 799
	32 533 933	**2 114 706**	**34 648 639**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

17. Provisions (continued)

Reconciliation of provisions - 2015

	Opening Balance	Additions	Total
Dewetsdorp landfill closure cost	7 783 751	14 173 521	21 957 272
Van Stadensrus landfill closure cost	1 577 832	1 499 487	3 077 319
Wepener landfill site closure cost	2 770 448	4 728 894	7 499 342
	12 132 031	**20 401 902**	**32 533 933**

In order to determine the rehabilitation cost for each site the Minimum Requirements (2nd Edition, 1998) form the Department of Water affairs and Forestry (DWAF) were used as a guideline for the design of the capping layer as well as the capacity of the storm water drainage system. If a site is unpermitted/unlicensed, the classification is assumed according to the volume of waste received per day at the site, the type of waste received and the climatic region in which the site is located, i.e. the factors that determine the classification of a licensed site.

The closure of a landfill site, regardless if it is licensed/permitted or not, requires a closure license as well as rehabilitation. The Minimum Requirements states that "in order to close a landfill properly, however, closure must be precede by rehabilitation to ensure that the site is environmentally acceptable". Due to the fact that the same requirements are set for the closure process for licensed/permitted and unlicensed/unpermitted sites, no distinction in the description of the process were made between licensed/permitted and unlicensed/unpermitted sites in the calculations.

The actual cost are determined by calculating the volumes of excavations, material required and legal requirements according to the footprint of each individual site. Previous estimate of the rates used for each item of work are escalated using the Consumer Price Index. The individual rates are then again cross-checked to determine if they are still in line with current rates for similar activities and adjusted accordingly. No disposal values were available and assumptions were made related to the population and average waste generation rates to estimate the waste volumes received per site. It was necessary to assume a classification according to the Minimum Requirements in order to determine the capping requirements. In order to give a general explanation for the significant rehabilitation estimate increases as compared to the previous estimates, the previous capping design (MR2) has been priced per square meter versus the capping design provided for in the 2016 estimates. The MR2 capping design was updated as per details contained in the recommendations made by the regulating authorities. The estimates are also based on rates for importing the capping materials from commercial sources and local sources. The comparison shows an increase of approximately 437% per square meter of waste body requiring rehabilitation.

The municipality have the following unlicensed landfill sites at year end:

- Dewetsdorp
- Van Stadensrus
- Wepener

18. Financial instruments disclosure

Categories of financial instruments

2016

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	115 158	-	115 158
Other receivables from exchange transactions	-	266 724	266 724
Consumer receivables	-	3 305 291	3 305 291
Cash and cash equivalents	-	1 243 001	1 243 001
	115 158	**4 815 016**	**4 930 174**

Figures in Rand	2016	2015

18. Financial instruments disclosure (continued)

Financial liabilities

	At amortised cost	Total
Other financial liabilities	180 804	180 804
Payables from exchange transactions	39 266 349	39 266 349
Unspent conditional grants and receipts	6 179 997	6 179 997
Consumer deposits	1 036 958	1 036 958
	46 664 108	**46 664 108**

2015

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	114 246	-	114 246
Other receivables from exchange transactions	-	266 831	266 831
Consumer receivables	-	1 725 181	1 725 181
Cash and cash equivalents	-	640 001	640 001
	114 246	**2 632 013**	**2 746 259**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	200 879	200 879
Payables from exchange transactions	30 489 697	30 489 697
Unspent conditional grants and receipts	4 613 513	4 613 513
Consumer deposits	882 001	882 001
	36 186 090	**36 186 090**

19. Service charges

Sale of electricity	19 875 154	16 721 497
Sale of water	5 071 616	5 425 181
Solid waste	4 289 283	4 083 914
Sewerage and sanitation charges	6 024 413	5 767 553
Solid waste rebate	(1 818 456)	(1 732 878)
Sewerage and sanitation rebate	(2 325 830)	(2 228 158)
Water rebate	(792 000)	(876 876)
	30 324 180	**27 160 233**

20. Investment revenue

Dividend revenue		
Listed financial assets - Local	1 738	3 579
Interest revenue		
Cash and cash equivalents	84 510	151 063
	86 248	**154 642**

Figures in Rand	2016	2015
21. Rental income		
Premises		
Houses	93 849	93 255
Town hall	22 018	18 940
Vodacom, MTN and Cell C	171 201	175 329
	287 068	**287 524**
22. Other income		
Building plan fees	1 754	968
Burial fees	57 897	45 864
Centlec - other income	-	41 561
Clearance and valuation certificates issued	18 803	16 451
Connection fees	143 964	1 168
Fines	17 100	32 139
Other income	700	3 397
Photocopy charges	37 960	26 171
Sale of erven	17 544	1 053
Sundry revenue	193 528	136 876
Tender fees	2 500	21 500
Trading license fees	9 078	12 145
	500 828	**339 293**
23. Fair value adjustments		
Other financial assets	364 912	16 392
24. Property rates		
Rates received		
Residential	2 866 363	1 961 686
Commercial	321 152	273 215
State	1 787 386	872 003
Small holdings and farms	1 781 254	1 719 049
Less: Rebates	(1 918 052)	(1 045 585)
	4 838 103	**3 780 368**
Tariffs		
Residential	0.0056	0.0095
Business/Commercial	0.0014	0.0091
State - Owned (Government)	0.0112	0.0183
State - Owned (Government agriculture)	0.11200	0.00348
Agricultural - Normal	0.0056	0.0017
Indigents	0.0000	0.0000

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

24. Property rates (continued)

Valuations (Value of property)

Residential	542 159 760	229 374 600
Commercial	52 845 000	33 212 000
State	211 386 000	186 224 000
Community	468 000	6 004 000
Small holdings and farms	1 199 750 000	988 074 000
	2 006 608 760	**1 442 888 600**

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2015.

25. Government grants and subsidies

Operating grants		
Cooperative Governance and Traditional Affairs Grant	-	720 000
Equitable shares	38 226 001	39 311 000
Finance Management Grant	1 283 263	1 800 000
Municipal Systems Improvement Grant	884 517	934 000
Total operating grants	40 393 781	42 765 000
Capital grants		
Department of Water Affairs grant	158 651	1 389 138
Expanded Public Works Programme grant	-	1 395 440
Municipal Infrastructure Grant	10 617 071	10 026 272
Total capital grants	10 775 722	12 810 850
Total government grants and subsidies	**51 169 503**	**55 575 850**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	12 943 502	12 810 850
Unconditional grants received	38 226 001	42 765 000
	51 169 503	**55 575 850**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Department of water affairs grant

Balance unspent at beginning of year	1 191 170	3 619 309
Conditions met - transferred to revenue	(158 651)	(1 389 139)
Other	-	(1 039 000)
	1 032 519	**1 191 170**

Conditions still to be met - remain liabilities (see note 13).

In terms of the constitution, this grant is for the drilling and maintaining of boreholes in the Naledi district.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

25. Government grants and subsidies (continued)

Expanded public works program grant (EPWP)

Balance unspent at beginning of year	42 615	438 054
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(673 272)	(1 395 439)
	369 343	**42 615**

Conditions still to be met - remain liabilities (see note 13).

The EPWP is a nationwide programme covering all spheres of government and state-owned enterprises. The Programme provides an important avenue for labour absorption and income transfers to poor households in the short to medium-term. It is also a deliberate attempt by the public sector bodies to use expenditure on goods and services to create work opportunities for the unemployed.

Finance management grant

Current-year receipts	1 875 000	1 800 000
Conditions met - transferred to revenue	(1 283 263)	(1 800 000)
	591 737	**-**

Conditions still to be met - remain liabilities (see note 13).

In terms of the constitution, this grant is used to assist and support the implementation of the financial management reforms attendance at accredited training sessions and capacity building programmes on financial management.

Municipal systems improvement grant

Current-year receipts	930 000	934 000
Conditions met - transferred to revenue	(884 517)	(934 000)
	45 483	**-**

Conditions still to be met - remain liabilities (see note 13).

In term of the constitution, this grant is used for building the capacity of the municipalities to implement sound institutional and governance systems required in terms of local government legislation.

Municipal infrastructure grant

Balance unspent at beginning of year	3 379 728	-
Current-year receipts	13 236 000	13 406 000
Conditions met - transferred to revenue	(12 642 813)	(10 026 272)
	3 972 915	**3 379 728**

Conditions still to be met - remain liabilities (see note 13).

In terms of the Constitution, this grant is used to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

25. Government grants and subsidies (continued)

Cooperative Governance and Traditional Affairs Grant (CoGTA)

Current-year receipts	-	720 000
Conditions met - transferred to revenue	-	(720 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 13).

Financial assistance received from COGTA to pay the remuneration of the CFO. During 2014 an additional amount was received to assist with the payment of the Bloemwater account.

Intergrated National Electrification Programme (INEP)

Current-year receipts	168 000	-

Conditions still to be met - remain liabilities (see note 13).

In term of the constitution, this grant is used for the improvement of the electricity capacity within the municipal borders.

26. Public contributions and donations

Local Government (COGTA, National Treasury)	5 783 980	2 155 495

During the financial year, payments were made on behalf of the municipality by COGTA for the settlement of the Das Ram Boerdery/CB Kotze/FP Strauss - (Damages) legal case settlement.

Payments were also made on behalf of the municipality for the May 2016 salaries.

27. Employee related costs

13th cheques	1 454 743	1 176 513
Acting allowances	163 168	89 045
Basic	19 757 953	17 200 420
Commissions	113 898	-
Contribution to medical aid, bargaining council, pension and provident fund	5 751 576	4 917 280
Current service cost	266 000	238 000
Finance management grant Salaries	510 000	607 799
Housing subsidy	655 506	330 206
Leave pay provision charge	134 615	572 178
Other allowances	270 152	180 319
Overtime payments	1 140 949	980 827
Skill development levy	262 634	216 032
Travel, motor car, accommodation, subsistence and other allowances	2 542 954	1 926 669
Unemployment insurance fund	176 446	161 177
Workmen’s compensation	468 200	210 000
	33 668 794	**28 806 465**

Figures in Rand	2016	2015

27. Employee related costs (continued)

Remuneration of Municipal Manager (Mr. Lefora QW)

Annual Remuneration	656 601	608 383
13th cheque and back pay	34 887	32 221
Travel, motor car and other allowances	307 534	255 908
Contributions to UIF, Medical and Pension Funds	185 048	170 440
	1 184 070	**1 066 952**

Remuneration as reflected in 2015/16 is for a period of 12 months.

Remuneration of the Chief Financial Officer (Mr. Moses TO)

Annual Remuneration	370 229	522 516
Car Allowance	29 955	27 808
13th cheque and back pay	186 488	124 107
Contributions to UIF, Medical and Pension Funds	87 975	247 959
	674 647	**922 390**

Remuneration as reflected in 2015/16 is for a period of 8 months.

Remuneration of acting Chief Financial Officer - (Ms. Hammond L)

Annual Remuneration	112 692	-
Car Allowance	98 593	-
Contributions to UIF, Medical and Pension Funds	37 148	-
Travel, motor car & other allowance	35 993	-
	284 426	**-**

Remuneration as reflected in 2015/16 is for a period of 4 months.

Remuneration of Director - Corporate services (Ms. Sigadi N)

Annual Remuneration	546 081	506 573
13th cheque and back pay	28 985	26 912
Travel, motor car and other allowances	265 482	233 009
Contributions to UIF, Medical and Pension Funds	130 119	120 337
	970 667	**886 831**

Remuneration as reflected in 2015/16 is for a period of 12 months.

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds namely Samwu National Provident Fund, Vrystaat Provident Fund, Vrystaat Munisipale Pensioen fonds, Sala Pension, Municipal employees fund which are subject to the Pensions Fund Act, exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Total contributions to such schemes	5 204 769	3 358 262

Figures in Rand	2016	2015

28. Remuneration of councillors

Executive mayor	518 197	471 888
Chief whip	160 411	518 577
Councillors	1 015 906	947 167
Travel, motor car and other allowances	597 052	151 504
	2 291 566	**2 089 136**

In-kind benefits

The Executive Mayor is full-time and Councillors are part-time. The Executive Mayor is provided with an office and secretarial support at the cost of the council.

The Executive Mayor is entitled to the use of a council provided vehicle for official duties and has one full-time bodyguard and a driver at the cost of the council.

2016	Annual remuneration	Travel, motor car and other allowances	Contribution to funds and Bargaining Council	Back pay	Total
Ms. Mahase M.	487 488	179 634	23 652	30 709	721 483
Mr. Tladi GM.	153 576	62 471	87	6 835	222 969
Mr. Haddad MG.	153 576	74 309	87	6 835	234 807
Mr. Mahloko MD.	153 576	60 336	87	6 835	220 834
Mr. Makitle J.	153 576	53 441	87	6 835	213 939
Mr. Motseledi TD.	153 576	74 309	87	6 835	234 807
Ms. Sehloho ML.	204 782	2 230	87	9 070	216 169
Mr. Seoko MM.	153 576	66 060	87	6 835	226 558
	1 613 726	**572 790**	**24 261**	**80 789**	**2 291 566**

2015	Annual remuneration	Travel, motorcar and other allowances	Contribution to funds and Bargaining Council	Back pay	Total
Ms. Mahase M.	448 866	163 291	21 231	23 022	656 410
Mr. Tladi GM.	140 553	45 678	81	10 951	197 263
Mr. Haddad MG.	140 553	59 721	81	10 951	211 306
Mr. Mahloko MD.	140 553	53 161	81	10 951	204 746
Mr. Makitle J.	140 553	49 338	81	10 951	200 923
Mr. Motseledi TD.	24 464	11 632	14	-	36 110
Mr. Rakhunoane K.	105 421	42 273	9 697	10 951	168 342
Ms. Sehloho ML.	187 403	-	81	10 951	198 435
Mr. Seoko MM.	140 553	62 053	81	12 914	215 601
	1 468 919	**487 147**	**31 428**	**101 642**	**2 089 136**

29. Depreciation

Property, plant and equipment	10 814 412	12 682 223

Figures in Rand	2016	2015

30. Impairment of assets

Impairments		
Property, plant and equipment	342 036	44 433
Assets which are no longer in use were impaired.		
Trade and other receivables	(9 115 027)	12 356 212
All accounts past due over 60 days were considered for impairment. The payment history of the account was taken into consideration to determine the estimated future cashflow.		
	(8 772 991)	**12 400 645**

31. Finance costs

Bank	120 120	32 813
Employee benefit obligation	304 000	251 000
Payables from exchange transaction	697 598	166 325
	1 121 718	**450 138**

32. Bulk purchases

Electricity	17 780 047	16 715 132
Water	8 895 137	6 971 324
	26 675 184	**23 686 456**

Distribution losses incurred on water and electricity purchases:

2016	Total sales (units)	Less total purchases (units)	Loss (units)	Percentage loss on purchases (units)	Rand value of loss at purchase price
Electricity (kilowatt)	30 685 829	-	4 067 247	23 %	4 186 360
Water (kiloliters)	283 884	(1 120 504)	(836 620)	75 %	(5 048 249)
	30 969 713	**(1 120 504)**	**3 230 627**		**(861 889)**

2015	Total sales (units)	Less total purchases (units)	Loss (units)	Percentage loss on purchases (units)	Rand value of loss at purchase price
Electricity (kilowatt)	14 556 931	(18 359 332)	3 802 401	21 %	19 810 509
Water (kiloliters)	349 451	(1 318 328)	968 877	73 %	5 047 849
	14 906 382	**(19 677 660)**	**4 771 278**		**24 858 358**

Figures in Rand	2016	2015

33. General expenses

Admin fees	156 569	149 646
Advertising	11 783	174 679
Audit fees	1 662 842	2 857 608
Bank charges	87 211	73 545
Cleaning	-	1 017
Computer expenses	226 455	825 355
Connection fees	576 219	248 051
Consulting fees	24 935	-
Electricity	-	407 863
Entertainment	13 799	23 778
Expanded public works programme expenses	1 891	1 381 764
Settlement of legal claims	3 232 427	277 559
Fuel and oil	283 935	329 618
Grant expenditure	158 651	1 232 773
IDP	15 000	67 368
Insurance	1 326 909	770 251
Legal expenses	1 134 038	946 249
License fees	25 543	15 224
Magazines, books and periodicals	3 057	-
Membership fees	1 030 212	524 500
Other expenses	169 680	(268 238)
PMU expenditure	-	1 791 822
Postage	102 729	126 260
Printing and stationery	237 412	229 447
Professional fees	2 529 713	3 927 155
Rental of equipment	1 048 744	611 095
Rental of vehicles	1 310 408	1 705 013
Security	22 290	1 432
Special community programmes	256 559	1 161 173
Telephone costs	1 458 433	1 114 282
Training	40 506	435 897
Travel and subsistence	-	239 275
Uniforms and overalls	25 998	100 053
	17 173 948	**21 481 514**

34. Operating lease rentals

Operating leases - as lessee (expense)		
- within one year	191 550	776 516
- in second to fifth year inclusive	16 050	556 486
	207 600	**1 333 002**
Operating leases - as lessor (income)		
- within one year	86 194	113 094
- in second to fifth year inclusive	142 763	228 008
	228 957	**341 102**

Operating leases income represent rentals payable by Vodacom, MTN and Cell C for the rental of municipal land for their, towers. Leases are negotiated for an average term of 5 year or less. The escalation is 10% per annum, and there are no contingent rentals or purchase options.

The municipality leases the FNB building in Dewetsdorp at a monthly rental of R 15 000 for a period of 3 years. The contract include an escalation of 7% after year 2 and an option to renew the lease after the 3 year period.

Figures in Rand	2016	2015

Operating lease payments include rentals payable by the municipality for certain of its vehicles being rented from the Government Garage. Leases are negotiated for an average term of 5 years or less depending on the type of vehicle rented, rentals paid include a fixed and a variable cost factor depending on the amount of kilometers traveled during the period.

The municipality leases 15 digital copiers from Multitech Corporation at a monthly rental of R 42 141. The agreement has no fixed term as is on a month to month basis. The contract includes an annual escalation of 15%.

35. Cash generated from operations

Surplus (deficit)	9 563 473	(13 910 239)
Adjustments for:		
Depreciation and amortisation	10 814 412	12 682 223
Gain on sale of assets and liabilities	9 395	25 757
Fair value adjustments	(364 912)	(16 392)
Impairment loss	(8 772 991)	12 400 645
Movements in employee benefit obligation	302 000	300 191
Movements in provisions	2 114 706	-
Prior period error	(18 273 784)	-
Changes in working capital:		
Inventories	(22 313)	(15 190)
Other receivables from exchange transactions	9 115 134	(240 315)
Consumer receivables	(1 580 110)	(12 795 233)
Payables from exchange transactions	8 776 652	5 606 188
VAT	(2 591 026)	(639 585)
Unspent conditional grants and receipts	1 566 484	556 150
Consumer deposits	154 957	313 173
	10 812 077	**4 267 373**

36. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Infrastructure assets	-	1 401 400
• Community assets	676 999	1 893 125
• Prior period error	-	1 004 148
	676 999	**4 298 673**
Not yet contracted for and authorised by accounting officer		
• Infrastructure assets	-	13 212 054
• Prior period error	-	(13 212 054)
	-	**-**
Total capital commitments		
Already contracted for but not provided for	676 999	4 298 673

Authorised operational expenditure

Already contracted for but not provided for		
• Consulting fees	-	2 069 559
• Other	17 783	243 200
	17 783	**2 312 759**
Total operational commitments		
Already contracted for but not provided for	17 783	2 312 759

Figures in Rand	2016	2015

36. Commitments (continued)

Total commitments

Total commitments		
• Approved and contracted for	-	4 298 673
• Approved and not yet contracted for	676 999	-
• Operating activities	17 783	2 312 759
	694 782	**6 611 432**

37. Contingencies

Contingent assets / Contingent liabilities

MIIB (illegal contract)		
Opening balance	(6 000 000)	(6 000 000)
Tankiso Griesel -(Unfair dismissal)		
Opening balance	-	(60 000)
Resolved - 29 April 2015	-	60 000
	-	**-**
Das Ram Boerdery/CB Kotze/FP Strauss - (Damages)		
Opening balance	(1 000 000)	(2 893 119)
Adjustments made	(2 232 427)	1 893 119
Settled (COGTA)	3 083 980	-
Liability (transferred to liability)	148 447	-
	-	**(1 000 000)**
Ngalo & 22 Others - (Unfair dismissal)		
Opening balance	(1 000 000)	(1 000 000)
Ngalo & 22 Others - (Interpretation of collective agreement)		
Opening balance	(4 000 000)	(4 000 000)
E.H. van den Berg- (Damage)		
Opening balance	-	(624 105)
Adjustments made	-	(175 895)
Matter finalised	-	800 000
	-	**-**

MIIB - Municipality entered into an agreement for the installation of a SAP financial system. The matter has been taken to court because the municipality believes that the contract was entered into illegally as the supply chain process were not followed. It is anticipated that the matter shall be finalised in the 2016/2017 financial year.

Das Ram Boerdery/CB Kotze/FP Strauss - he plaintiffs were claiming damages from the municipality due to a field fire started by the municipality. Judgement has been delivered and a settlement amount of R 3 232 427 was imposed on the defendant. R 3 083 980 was paid by COGTA on behalf of the municipality, resulting in a balance owed of R 148 447. The balance was disclosed as a trade payable.

Ngalo & 22 Others - (Unfair dismissal) - The municipality is in a court case with its former employees for an alleged unfair dismissals. Judgement has been made in favour of the plaintiffs by the Labour Court of South Africa. However, the municipality seeked leave to appeal the decision and by year end the matter was yet to be finalised. The expected date of finalisation is during the 2016/2017 financial year.

Figures in Rand	2016	2015

37. Contingencies (continued)

Ngalo & 22 Others - (Interpretation of collective agreement) - There is a dispute over the SALGBC interpretation of the collective agreement. It is anticipated that the matter shall be finalised in the 2016/2017 financial year.

E.H van der Berg - The case was settled during the 2015 financial year.

38. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Councillors	Refer to note on remuneration of councillors
Members of key management	Refer to note on employee cost

No related party transactions were incurred during the year under review.

39. Risk management

The municipality's activities expose it to a variety of financial risks: credit, liquidity and market risk

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2016	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	39 308 454	-	-	-
Other financial liabilities	20 075	160 729	-	-

At 30 June 2015	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	30 489 697	-	-	-
Other financial liabilities	20 075	180 804	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Receivables comprise a widespread customer base. Management evaluated credit risk relating to receivables on an ongoing basis. If receivables are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the receivable, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by management.

Financial assets exposed to credit risk at year end were as follows:		
Cash and cash equivalents	1 243 001	640 001
Consumer receivables	54 799 514	62 334 431
Other receivables from exchange transactions	266 724	266 831
Other financial assets	115 158	114 246

The amounts above best represent the exposure of the municipality to credit risk.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

39. Risk management (continued)

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality has shares in Senwes and OVK. These shares are monitored effectively by management for significant changes in market conditions.

However as the municipality is amalgamating with Mangaung Metro Municipality (MMM) on 11 August 2016, date of the local municipal election outcomes held on 3 August 2016, funding will be part of MMM equitable share allocation.

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations, even though part of MMM and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business of MMM.

40. Going concern

We draw attention to the fact that at 30 June 2016, the municipality had accumulated surplus of R 251 412 074 and that the municipality's total assets exceed its liabilities by R 251 412 074.

The municipality is experiencing some financial difficulties, indicators are as follows:

- Suppliers are not paid within the legislative 30 days;
- Unspent conditional grants are not backed by available cash balances;
- Employee benefit obligations are unfunded;
- High levels of distribution losses;
- Slow collection and low recoverability of outstanding consumer accounts; and
- Unfavorable financial ratios.

The municipality is exploring alternative options to improve its financial position. Although certain financial ratios may appear unfavourable, the municipality still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act, 2016.

41. Events after the reporting date

Provincial Notice 36 dated 7 July 2015 stated that in terms of section 21 of the Local Government: Municipal Demarcation Act, 1998, the Municipal Demarcation Board has re-determined the municipal boundaries of Mangaung Metropolitan Municipality, Xhariep District Municipality (DC16) and Naledi Local Municipality (FS164) by excluding the municipal area for Naledi from the municipal area of Xhariep and including it into the municipal area of Mangaung.

The effective date for the amalgamation has been set for 11 August 2016, date of the local municipal election outcomes.

42. Unauthorised expenditure

Opening balance	62 815 000	33 154 000
Incurred during the current year	3 447 892	29 661 000
	66 262 892	**62 815 000**

There are currently no investigations on unauthorised expenditure incurred in the current year and no disciplinary steps have been taken against all officials at this stage.

Figures in Rand	2016	2015

43. Fruitless and wasteful expenditure

Opening balance	6 005 728	5 499 702
Fruitless and wasteful expenditure incurred during the year	466 902	237 460
Restatement 2012	-	268 334
Restatement 2013	-	232
	6 472 630	**6 005 728**

Council are in the process of investigating the prior year's unauthorised expenditure. The current and prior year fruitless and wasteful expenditure was mostly incurred due to budget constraints.

There are currently no investigations on fruitless and wasteful expenditure incurred in the current year and no disciplinary steps have been taken against all officials at this stage.

Interest and penalties were incurred on the following overdue accounts for the current and prior year:

Fruitless and wasteful expenditure		
Auditor general	13 087	50 223
Bloemwater	105 658	38 814
Coetzee werkswinkel	170	141
Country Inn Lodge	2 813	-
Directory Data Services	14 410	-
ESKOM	7 509	3 574
NCC	5 061	-
OVK	1 504	2 253
Polly's Hardware	98	-
SARS	236 110	134 069
Symington and De Kock	70 850	-
Telkom	9 632	8 278
UFS	-	108
	466 902	**237 460**

44. Irregular expenditure

Opening balance	65 753 268	25 615 843
Irregular expenditure - current year	13 966 346	11 327 175
Restatement 2012	-	26 841 676
Restatement 2013	-	(464 541)
Restatement 2014	-	2 433 115
	79 719 614	**65 753 268**

Analysis of expenditure awaiting condonation per age classification

Current year	13 966 346	11 327 175
Prior years	65 753 268	54 426 093
	79 719 614	**65 753 268**

There are currently no investigations on irregular expenditure incurred in the current year and no disciplinary steps have been taken against all officials at this stage.

Details of irregular expenditure - 2016

Price: R 2 000 - R 10 000	Anta Boga Hotel	2 913
	Apcor	2 563
	Bankam Security	4 537
	Botra Bus Service	9 300
	Coetzee Werkswinkel	9 886

Notes to the Annual Financial Statements

44. Irregular expenditure (continued)

	Country Inn Lodge	2 813
	Courtyard Hotel	3 900
	Development	10 000
	Directory Data Services	3 171
	Egweni Hotel	4 320
	Garden View Guest Houses	3 840
	GWN Bloemfontein	2 923
	Hilton Hotel	8 500
	Indaba Hotel	2 827
	Ipopeng Office Supplies CC	3 016
	Landfill Site Cleaning	2 034
	Lesedi FS	2 300
	Network & Computing Consultants	5 564
	OVK	5 218
	Plumblink	9 934
	Rabilinyane	5 997
	SAMEA	3 450
	Seipone News	8 792
	Sentsoeti DC	10 000
	UFS	7 163
	Van Biljons	2 850
	Victoria & Alfred Guest House	4 980
	Xhariep Independent	5 000
Price: R 10 000 - R 200 000	ABSA-Gestetner	10 773
	AS De Jonge	23 085
	Blue Rain	112 175
	CHH Knauff	16 325
	Cloetes Werkswinkel	13 043
	Directory Data Services	11 629
	First Technology	22 790
	GALE	115 350
	JABATHA	11 720
	Kudjo Consulting	91 829
	Metsweding Consulting	162 019
	Multitech Corporation	15 329
	NCC	33 998
	OVK	190 199
	Protea Hotel	12 091
	QCK Lezmin 4052 CC	49 077
	Ramotheba Works	30 000
	Vodacom	137 406
	Xhariep Independent	15 000
Price: R 200 000 - above	Digicoms	392 974
	KET Civils	6 072 783
	Mabalance Seobe	216 939
	MAT Establishment	361 562
	MAT Establishment	1 189 516
	Multitech Corporation	493 746
	Ndlala Mass Valuation	417 900
	PSR Civil Construction	739 531
	PSR Civil Construction	787 783
	QCK Lezmin 4052 CC	1 060 697
	Shitolo Waste Management	280 051
	Symington and De Kock	357 577
	Telkom	373 658
		13 966 346

Notes to the Annual Financial Statements

44. Irregular expenditure (continued)

Details of irregular expenditure - 2015

Price: R 2 000 - R 10 000	AFROX	9 536
	Coetzee Werkswinkel	3 218
	Dewetsdorp slaghuis	4 470
	E.O.P. Trading	5 950
	Kevcor	7 339
	Kopano Nokeng	2 347
	Letlaka communications	5 190
	Lithotech	8 951
	Mapeleshi Catering	3 000
	Matrix warehouse	4 911
	Media 24	7 302
	Mix Fix	7 569
	Multitech Corporation	3 729
	Riverside Hotel and Spa	4 737
	Stanville Hotel	8 917
	SW Phethuka	8 000
	The New Age Media	8 280
	TP Mazangwana	1 647
	Wepener Drukkery	4 938
Price: R 10 000 - R 30 000	AT Mpiti	11 700
	Coetzee Werkswinkel	14 950
	Coetzee Werkswinkel	22 177
	Courtyard Hotel Arcadia	13 684
	First technology	14 771
	Flight centre	16 718
	M Mahase	14 517
	Media 24	16 800
	New Born Trading	21 930
	Protea Hotel Kimberley	12 294
	Protea Hotel Parktonian	13 406
	Qwanty coaches	29 200
	Ramotheba works	30 000
	Rocla (Pty) Ltd	29 741
	RTM General Services	19 800
	St John	15 964
	The New Age Media	14 720
	Three Cities Hotel	13 579
	TNA Media (Pty) Ltd	27 328
	UFS	17 853
	UFS	20 980
	UFS	27 987
	Xhariep	11 000
Price: R 30 000 - above	Dovetail Construction	307 447
	Free State Fleet Management	265 616
	Ginami trading 34cc	528 000
	Heavy W8	64 990
	Heavy W8	136 600
	Heavy W8	98 075
	Kevcor	36 819
	Knowledge Expertise Trading	2 179 101
	Koaho Civil Contract	184 904
	Lekulo Investment building construction	49 000
	Letlaka communications	62 881
	Leveticus steel building construction	607 325
	Lithotech	72 796
	Lithotech	108 911

Figures in Rand	2016	2015

44. Irregular expenditure (continued)

Maxprof	470 313
Media 24	32 760
OVK	38 219
Reatlehise development	211 564
Seipone News	66 768
Sinqoba Simunye Management CC	67 368
PSR Civil	296 765
QCK Lezmin	726 155
Payroll cost from grant	4 173 668
	11 327 175

45. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA

Opening balance	512 500	500 000
Current year subscription / fee	500 000	500 000
Amount paid - current year	(11 500)	(12 000)
Other related expenditure	17 078	12 000
Amount paid - previous years	-	(500 000)
Prior period error	-	12 500
	1 018 078	**512 500**

Material losses through criminal conduct

During the year a New Holland tractor, registration number DKL 853 FS as well as a refuse trailor, registration number BRW 875 FS was stolen. The case was reported to South African Police Services (SAPS), case number 28 July 2015.

Audit fees

Opening balance	528 502	252 426
Current year subscription / fee	2 343 596	3 306 896
Amount paid - current year	(353 385)	(2 451 025)
Amount paid - previous years	(855 870)	(252 426)
Error	-	(327 369)
	1 662 843	**528 502**

PAYE and UIF

Opening balance	242 877	162 304
Current year subscription / fee	4 081 111	2 869 242
Amount paid - current year	(3 227 024)	(2 626 365)
Amount paid - previous years	(242 876)	(162 304)
	854 088	**242 877**

Pension and medical aid deductions

Opening balance	596 942	11 906
Current year subscription / fee	7 348 464	6 891 685
Amount paid - current year	(5 987 554)	(6 294 743)
Amount paid - previous years	(596 942)	(11 906)
	1 360 910	**596 942**

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	11 902 390	9 311 364

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2016:

30 June 2016	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mr MG Haddad	373	-	373
Ms M Mahase	663	1 101	1 764
Mr MD Mahloko	945	4 038	4 983
Mr E Mphumela	525	3 377	3 902
Mr K Rakhunoane	504	8 224	8 728
Ms ML Sehlolo (Molise)	174	721	895
Mr MM Seoko	469	661	1 130
Mr GM Tladi	1 070	1 337	2 407
	4 723	**19 459**	**24 182**

30 June 2015	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mr MG Haddad	595	-	595
Ms M Mahase	597	8 287	8 884
Mr MD Mahloko	1 314	7 989	9 303
Mr K Rakhunoane	597	6 116	6 713
Ms ML Sehlolo (Molise)	283	2 443	2 726
Mr MM Seoko	597	7 635	8 232
	3 983	**32 470**	**36 453**

46. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Refer to note 44 - Irregular expenditure for a comprehensive list disclosed.

47. Prior period errors

Finance leases

With the review of lease agreements it was determined that a printer on a 36 month lease from NRG Office Solutions comply with the requirements of a deemed finance lease as per GRAP 13 Leases as at the inception of the lease in September 2013 the present value of the minimum lease payments amounted to substantially (at least 90%) all of the fair value of the printer.

Notes to the Annual Financial Statements

47. Prior period errors (continued)

The comparative statements for 2014/2015 have been restated. The effect of the restatement is summarised below:

Statement of financial position	
Decrease in retained earnings	25 171
Increase in operating lease liability	(25 171)
Increase in cost price of assets	58 522
Increase in accumulated depreciation	(21 990)
Increase in retained earnings	(36 532)

Other financial assets

The comparative statements for 2014/2015 have been restated. The effect of the restatement is summarised below:

Statement of changes in net assets	
Increase in cash and cash equivalents	156
Decrease in net assets	(1 104)
	(948)
Statement of financial position	
Increase in retained earnings	(948)

Other financial assets, investments, opening balance did not include the final fair value adjustment as at 30 June 2015.

Property plant and equipment

The comparative statements for 2014/2015 have been restated. The effect of the restatement is summarised below:

Statement of changes in net assets	
Increase in infrastructure assets	(6 142)
Increase in computer equipment	(41 094)
Increase in furniture and fittings	(128 475)
Increase in office equipment	(6 379)
Increase in plant and equipment	(1 454)
	(183 544)
Statement of financial position	
Decrease in retained earnings	183 545

Correction of opening balance. Old assets were found, but not recorded on 2015 asset register.

Correction on infrastructure assets depreciation.

These assets relates to computer equipment, furniture and fittings, office equipment and plant and equipment.

This error was retrospectively corrected.

Notes to the Annual Financial Statements

47. Prior period errors (continued)

Other income

The comparative statements for 2014/2015 have been restated. The effect of the restatement is summarised below:

Statement of changes in net assets	
Decrease in Water - service charges	613
Increase in Sewer	(2 619)
Decrease in Refuse - service charges	860
Decrease in Sundry debtors	1 915
Increase in Rates	(4 949)
	(4 180)
Statement of financial performance	
Increase in service charges and rates	4 180

Correction of opening balance. Old assets were found, but not recorded on 2015 asset register.

Project number	**MIG/FS0932/ R,ST/13/14**	**MIG/FS1022/ CF/14/15**	**MIG/FS1053/ R,ST/15/17**	**Total**
Contract amount	1 023 162	2 553 600	14 613 454	18 190 216
Budget amount	7 200 740	2 623 226	1 401 400	11 225 366
Amount paid to date 30/06/2015	6 553 214	586 284	-	7 139 498
Retention plus guarantee at 30/06/2015	550 119	74 191	-	624 310
Commitment at 30/06/2015 (Approved and contracted)	-	1 893 125	1 401 400	3 294 525
Commitment at 30/06/2015 (Approved not yet contracted)	-	-	13 212 054	13 212 054
Restated contract amount	7 697 594	2 963 487	1 401 400	12 062 481
Restated budget amount	8 601 780	-	14 613 454	23 215 234
Restated commitment at 30/06/2015 (Approved and contracted)	594 261	2 303 012	1 401 400	4 298 673
Restated commitment at 30/06/2015 (Approved and not yet contracted)	-	-	-	-
Difference commitment (Approved and contracted)	594 261	409 887	-	1 004 148
Difference commitment (Approved and not yet contracted)	-	-	(13 212 054)	(13 212 054)

The commitments at 30 June 2015 above (before restatement) are calculated using the same formulae used in the previous year by the preparers.

Notes to the Annual Financial Statements

47. Prior period errors (continued)

Additional disclosure on SALGA

	2015 Issued	Adjustment	2015 Restated
Opening balance	500 000	-	500 000
Current year subscription/fee	500 000	-	500 000
Other related expenditure	12 000	12 500	24 500
Amount paid - current year	(12 000)	-	(12 000)
Amount paid - previous year	(500 000)	-	(500 000)
	500 000	**12 500**	**512 500**

Increase in the opening balance of creditors for 2015/2016 of R 12 500 and an increase in the membership fees of R 12 500 which leads to a decrease of R 12 500 in profit for 2014/2015 and an increase of R 12 500 in liabilities for 2014/2015.

Additional disclosure on audit fees

During the prior year, the current year fees were incorrectly disclosed.

	2015 Issued	Adjustments	2015 Restated
Current year	3 306 896	327 369	2 979 527

System error

An error amounting to R 18 522 673 which was a result of a system error was identified and is currently under investigation.

Statement of changes in net assets	
Decrese in net assets	(18 522 673)

48. Comparative figures

Certain comparative figures have been reclassified, where necessary to conform with the changes in presentation in the current year.

We draw specific attention to the following reclassification in the 2015 issued annual financial statements.

Operating lease expenditure have been reclassified as a finance lease expense and therefore the current and non current portion of the finance lease amount will increase for comparative figures.

The aggregate effect of prior period errors are disclosed in note 47 - Prior period errors.

Notes to the Annual Financial Statements

49. Change in estimate

Property, plant and equipment

The average remaining useful life for some of the movable assets has been revised.

Asset	Minimum remaining useful life	Maximum remaining useful life
Computer equipment	2	13
Furniture and fittings	3	17
Motor vehicles	5	25
Music instruments	8	9
Office equipment	3	20
Other assets	9	12
Plant and equipment	2	20

The effect of this revision has increased the depreciation charges for the current and future periods by R 116.

50. Transfer of functions

Transfer of functions between entities not under common control occurring after the end of the reporting period but before the financial statements are authorised for issue

Provincial Notice 36 dated 7 July 2015 stated that in terms of section 21 of the Local Government: Municipal Demarcation Act, 1998, the Municipal Demarcation Board has re-determined the municipal boundaries of Mangaung Metropolitan Municipality, Xhariep District Municipality (DC16) and Naledi Local Municipality (FS164) by excluding the municipal area for Naledi from the municipal area of Xhariep and including it into the municipal area of Mangaung.

The effective date for the amalgamation has been set for 11 August 2016, date of the local municipal election outcomes.

Since the municipality is amalgamating within Mangaung Metro Municipality and cease to exist, it can be seen as a transfer not under common control.

All major classes of assets and liabilities will be transferred at the fair value on the effective date set for the amalgamation.

All contingent considerations is transferred against the amount recognised at the acquisition date.